



Testimony of Bob McDonald  
U.S. House of Representatives  
Committee on Veterans' Affairs  
Subcommittee on Disability Assistance and Memorial Affairs  
Thursday, June 16, 2005

My name is Bob McDonald, representing USAA – also known as the United Services Automobile Association – and I am pleased to have this opportunity to address this Subcommittee on issues of significant importance to our servicemen and women and their families. I oversee the marketing of USAA's life insurance products to our military members. I have also served as a US Army officer both on active duty and the reserves, hold the Chartered Life Underwriter (CLU), Fellow, Life Management Institute (FLMI) and Registered Health Underwriter (RHU) professional designations, and have over 11 years experience in the industry with both USAA and New York Life.

USAA is a diversified financial services company known for its financial strength, outstanding service, and competitive products. Founded in 1922 to serve members of the military and their families, the Association provides insurance, banking, investments, and financial planning to more than 5 million members. USAA has a larger share of the military market for insurance and financial services than any other company. USAA Life Insurance Company was founded in 1963 as a wholly owned subsidiary of USAA.

USAA Life Insurance Company strives to provide appropriate, competitively priced life insurance to active duty members. Our policies carry no war exclusions, we will underwrite members in the midst of deployment, and USAA even waives a medical exam for deploying members desiring standard life insurance policies, since they have already undergone rigorous physical exams.

USAA as a whole assisted over 72,000 deployed members in 2004 with various financial transactions. We know each member and his or her family has unique needs, and tailor our product recommendations to fit their individual circumstances. We promote financial education for all of our members, but particularly work to educate military personnel (active duty, Reserve and National Guard) on current financial issues and products, to enable them to make better choices for them and their families.

USAA's challenge is to mesh our products with those provided to our active duty members via government programs. We have closely followed the debate on SGLI coverage, a death gratuity increase, and the new Traumatic Injury Protection proposal in order to provide the most up-to-date advice to our members.

We thank the committee for allowing us to be part of today's hearing on SGLI and TIP. The committee specifically indicated it will be deliberating on amendments to the Servicemembers' Group Life Insurance (SGLI) program, the Traumatic Injury Protection

*Requested disclosure: Neither I, Bob McDonald, nor USAA has received any federal grant or contract relative to Servicemembers' Group Life Insurance or federal disability programs during the current year or for the two fiscal years preceding the June 16 hearing on these subjects.*

provisions of Public Law 109-13, and H.R. 1618, the Wounded Warrior Servicemembers' Group Disability Insurance Act of 2005.

USAA hopes the following comments are helpful and looks forward to responding to any questions during the hearing or in future deliberations on these programs.

### ***Servicemembers' Group Life Insurance (SGLI)***

USAA has strongly supported recent proposals to expand SGLI coverage. Members of the general public are generally underinsured, according to most common life insurance industry calculations. Given the risky nature of their daily work, this is particularly true for our military service members. Increasing the coverage available via SGLI from \$250,000 to \$400,000 will help provide a meaningful amount of resources to the surviving families of uniformed personnel. USAA's experience also indicates many members have the desire and/or need for more individual coverage than we can offer; and this increase will get those members closer to what they feel is adequate protection.

Some of our other observations on the current debate about SGLI structure:

**Ensure no discrimination for SGLI based on duty status.** This is important in order for military members to design a sound financial plan. When there are differences in benefits based on cause of death, a military member will often underestimate his or her need for life insurance and jeopardize the financial security of their survivors.

**Allow conversion of the full \$400,000 in SGLI coverage to VGLI.** Military members will have made financial planning decisions dependent on having \$400,000 in life insurance coverage and must have the option to maintain that coverage amount after their military career.

**Educate military members on the benefits of supplementing SGLI with private insurance coverage.** SGLI is excellent group coverage but group coverage has inherent restrictions: coverage ends concurrent with one's military service and conversion rights (such as that provided for in VGLI) are often expensive since only those who are otherwise uninsurable generally elect a conversion. Private insurance has the benefit of providing coverage for the family after military service. A number of providers offer cost-competitive products with a locked-in rate for an extended term period that is often more economical than VGLI (depending on health). It also has conversion privileges for members with a permanent need. Young members with young families should protect their future insurability by buying private life insurance while they are in good health.

**Emphasize life insurance issues in military financial education programs.** Minimum requirements might include a discussion of the purpose of life insurance, how to calculate adequate coverage, descriptions of different types of

life insurance, common questions to ask an insurance agent, words and phrases to be on the lookout for during a life insurance transaction, and the differences between SGLI, VGLI and private insurance.

**Arrange for financial planning services for survivors upon receipt of SGLI benefits.** USAA has a Survivor Relations Team that not only handles all USAA accounts for the survivors, but also refers family members to a Certified Financial Planner (CFP) at our Financial Planning Service to ensure that USAA life insurance proceeds and any other death benefits are appropriately invested for the long term benefit of dependents. Typical elements of a plan might include income replacement, education savings, mortgage or rent payment, child care, and retirement savings. The Department of Defense or Veterans Affairs may wish to identify resources both within the government and the private sector that can deliver independent, professional advice to families to avoid rapid depletion of funds and to ensure that monies they receive last for the long term needs they will have.

**Require only spousal notification and not consent for SGLI coverage and beneficiary decisions.** Just like an owner-insured in the private market, the service member should have the right to name beneficiaries and determine the amount of insurance in force. Private industry has no precedent for this type of consent requirement – state insurance codes generally dictate that as long as the owner and insured is the same person, it doesn't matter who is named beneficiary. The following are examples of situations that may cause concern if consent is required:

- A service member in a second marriage may find that the current spouse doesn't want the service member to provide the children from the first marriage a benefit.
- Confusion may arise if the service member elects less than maximum coverage but dies prior to spousal consent form being completed. Should the spouse receive a full \$400,000 or the lesser amount?

***Traumatic Injury Protection (TIP) provisions of  
Public Law 109-13***

USAA wholeheartedly supports this type of disability program and feels it is even more important for committee consideration than the increase in SGLI. Today's military personnel face very different hazards than in the past; with advancements in battlefield medical care, many of our service members return from combat alive but disabled.

The private sector, including USAA, has deliberated private disability insurance for military personnel and determined it's not an appropriate private risk. The frequency is too high and the injuries too severe for private industry to provide affordable coverage. However, the private sector has the ability to cover wartime deaths, which have proven

to be relatively infrequent occurrences in a much larger risk pool, and this is much more within the industry's capacity.

With the concerns over military budgets, Congress may wish to consider providing enhanced benefits to the military that the private sector would not be able to price competitively. TIP falls into this category. The government could then work on finding ways to encourage the private sector to provide well-designed, competitive products where they can actuarially assume the risk, such as life insurance.

Some of USAA's initial observations on the TIP program as currently proposed in statute:

**Clarify the SGLI coverage that qualifies a military member to obtain TIP.**

Current statute does not address whether the service member must have the full \$400,000 in place or just a portion. USAA recommends not forcing a service member to be over insured with life insurance by requiring a minimum \$50,000 SGLI in place to be eligible for the TIP rider.

**Align benefit payments with anticipated rehabilitation time, not just severity of injury.** The purpose of this benefit is to subsidize the additional expenses and loss of income to the service member and his/her family during the rehabilitation period. The benefit amount should be so based.

**Ensure favorable tax status for these benefit payments.** Disability benefits in private sector group plans are taxable to the extent a company receives favorable tax treatment of the premiums. The TIP benefit needs to be tax-free to the service member.

***H.R. 1618, the Wounded Warrior Servicemembers' Group Disability Insurance Act of 2005***

USAA notes that, while similar in scope, H.R. 1618 has some significant differences from the TIP program and we have the following brief comments:

**Designation of a private vendor is appropriate.** The administration of the program by a private insurance company is appropriate and has proven effective with SGLI.

**Beware adverse selection.** The bill provides for "subsequent coverage after election not to be covered," following a written application, proof of good health and compliance with other terms and conditions. Service members will have a tendency to only elect coverage when deploying and the committee can assume they are healthy at that point because otherwise they are non-deployable. The population of the risk pool will thus be largely limited to high-risk members, steeply increasing the cost to the service member and the government. A

possible solution to this would be an annual open enrollment period or a probation period if the member doesn't enroll at their first opportunity.

**Align benefit payments with anticipated rehabilitation time and provide appropriate coverage for the most severe casualties.** The amount of insurance is proposed to be capped at \$50,000 and is equal for all qualifying disabilities. The amount of insurance should be based on the estimated time for rehabilitation because this is the period of time the additional funds will be needed to ensure family support of the service member. For severe injuries requiring extensive rehabilitation, the amount should be \$100,000.

**Educate service members on the importance of this benefit.** The "furnishing of information" section requires that a service member who elects not to obtain this coverage receive information regarding the purpose and role of disability insurance in financial planning and the availability of commercial disability insurance. It is very important they understand the disability benefits the government provides and the lack of availability of private sector disability insurance.